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C O N F I D E N T I A L SECTION 01 OF 02 RPO DUBAI 000409

SIPDIS

DEPT PLS PASS TO DEPT OF TREAS BRIAN GRANT, JASON WEISS

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TAGS: ECON IR PGOV PREL
SUBJECT: IRAN: IRGC ACQUIRES BANK LICENSES

REF: RPO DUBAI 394

DUBAI 00000409 001.2 OF 002

CLASSIFIED BY: Alan Eyre, Director, Iran Regional Presence Office, DoS.
REASON: 1.4 (b), (d)

¶1. (C) SUMMARY: The Central Bank of Iran (CBI) recently approved bank licenses (one preliminarily) for two financial institutions affiliated with the Islamic Revolutionary Guard Cors (IRGC), Ansar Finance and Credit Institute (AFCI) and Mehr Finance and Credit Institute (MFCI). The licenses allow the two to formally offer retail and investment banking facilities throughout Iran. Though the CBI has authorized both licenses under the rubric of privatization, the licenses mark the entry of IRGC as a new parastatal player in Iran's banking sector. With national branch, ATM, and point-of-sale infrastructure already in place as well as strong capital backing, these new banks are poised to grow their portfolios rapidly. As a result, the IRGC will be able to fortify its advantage in raising capital for affiliated businesses, extend its influence into non-IRGC sectors of the economy through investment banking, and perhaps increase access to funds transfer facilities. END SUMMARY.

¶2. (SBU) In an August 24 2009 meeting, the CBI's Money and Credit Council authorized a license for AFCI (and two other institutions) to formally begin banking operations. The approvals increase the number of 'private' banks in Iran from six to nine. Additionally, the CBI governor Mahmoud Bahmani announced that the Central Bank was reviewing an additional 40 applications, preliminarily approving one for MFCI. As of January 2009, 'private' banks account for 18.7 percent of total banking sector assets (USD 438 billion), having only passed the 10 percent mark in November 2006.

FROM HUMBLE BEGINNINGS

¶3. (C) After the Islamic Revolution, Ansar Loan Union Fund (Sanduq-e Qarz ol-Hasaneh Ansar') and Basij Loan Union Fund ('Sanduq-e Qarz ol-Hasaneh Basjian') were established as two non-banking financial institutions with the mandate to provide interest-free loans ('qarz ol-hasaneh') to those IRGC and Basij members who fought in the Iran-Iraq War and their families. (NOTE: Qarz ol-hasaneh, a type of transaction that forbids a

financial institution to charge interest under Islamic law became the de facto means of taking deposits and issuing loans when the banking system was nationalized after the Islamic Revolution. END NOTE). These two funds operated under this limited charter for twenty years.

NOT YOUR FATHER'S CREDIT UNION

¶4. (C) In October 2006, in Ahmadinejad's first term, the CBI licensed the two IRGC affiliated Loan Union Funds (LUFs) to operate as Finance and Credit Institutes (FCIs). Though the new approval gave the institutions the authority to operate more like retail banks, under CBI regulations their offerings were still limited. Both FCIs expanded aggressively though and sometimes outside of their authority. As one Dubai-based political analyst who highlighted the noticeable support to these particular FCIs said, "Under Khatami, it was policy to keep the IRGC and bonyads (parastatal foundations with a strong, presence in Iran's economy) out of oil and banking. Under Ahmadinejad, there was a decision to grant them licenses and push them forward." Today, these FCIs are quite large:

ANSAR FINANCE AND CREDIT INSTIUTE (AFCI) has about 5,000 employees staffing 600 branches with 300 ATMs throughout the country. It claims to have more than 5.5 million registered accounts with with 65 percent of that dedicated to qarz ol-hasaneh offerings (loans and fixed deposits).

MEHR FINANCE AND CREDIT INSTITUTE (MFCI) changed its name from 'Basijian' to 'Mehr' when the CBI authorized it to become an FCI, though its affiliation the Basij para-military

organization, under the command of the IRGC, remains in place. The organization currently claims to have 700 branches and 215 ATMs.

¶5. (C) In the last three years, Ansar and Mehr grew rapidly, acting as pseudo-banks, involved both in retail and investment banking. (NOTE: Both have accumulated large amounts of capital though there are conflicting accounts of the absolute total assets of each bank. According to CBI regulation, a bank license requires an institution to have at least USD 2 billion in capital. END NOTE). Most of that revenue was accumulated through investment banking and fixed deposit transactions. According to press reports, public records indicate that MFCI purchased stock in the following Tehran Stock Exchange-traded companies: Telecommunications Company of Iran (TCI) (reftel), Mobarakeh Steel, Iran Tractor Manufacturing Company, Iran Marine Industrial Company ('Sadra'), Technostar Engineering, Iran Aluminum Company ('IRALCO'), and Jaber Ebne Haygen Pharmaceuticals. Additionally, as reported reftel, Mehr Investment Company, one of the two consortiums that bid on the recent TCI tender, included MFCI as a partner.

IRGC: THE GRIP THAT KEEPS ON GRIPPING

¶6. (C) In addition to being able to now offer the full range of retail bank services (including checking and savings), bank licensing may also provide AFCI and MFCI a new channel to access state funds. During Ahmadinejad's tenure, under political pressure from the administration the CBI has provided loans to

state banks for further distribution to the population under the guise of small business lending programs. Most of these loans have gone bad, and as a result the total debt of Iran's 11 state banks to the CBI is in excess of USD 32 billion. As licensed banks, AFCI and MFCI will also qualify for similar CBI credit allowing them to grow assets and further capitalize their retail and investment banking operations, ultimately extending their reach in various economic sectors.

¶7. (C) COMMENT: While AFCI and MFCI started operating some banking facilities in the absence of a license, this new formal endorsement by the Central Bank means that the IRGC will have the ability to broaden and deepen its economic presence. It can use the banks to obtain partial ownership in large, publicly traded businesses through its investments as well as take stakes in small to medium enterprises through retail banking. As a result, the IRGC will be able to fortify its advantage in raising capital for affiliated businesses, extend its influence into non-IRGC sectors of the economy through investment banking, and perhaps increase access to funds transfer facilities. END COMMENT.
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